

Message Text

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73

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 CEA-01 STR-04 DODE-00

PM-03 H-02 L-03 NSC-05 PA-01 PRS-01 SS-15 SAJ-01

/091 W

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R 231630Z JUL 75

FM AMEMBASSY LUXEMBOURG

TO SECSTATE WASHDC 4539

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS UNN

C O N F I D E N T I A L LUXEMBOURG 0566

E.O. 11652: GDS

TAGS: EEC, EGEN

SUBJECT: CONCERN ABOUT THE CURRENT ECONOMIC SITUATION

1. IN CONVERSATION WITH PRIME MINISTER ON JULY 23, I
ASKED THORN IF HE COULD ELABORATE ON THE GISCARD-SCHMIDT
THESIS THAT EC'S CURRENT ECONOMIC PROBLEMS HAD TO BE
DEALT WITH IN A LARGER CONTEXT. THORN REPLIED THAT
GISCARD AND SCHMIDT, AND IN FACT EVERYONE ELSE IN THE
COMMUNITY, WERE EXTREMELY CONCERNED ABOUT CURRENT
ECONOMIC CONDITIONS. HE SAID THAT AT THE JULY EC
COUNCIL MEETING, GISCARD PAINTED A MUCH GLOOMIER
PICTURE OF THE FRENCH ECONOMIC SITUATION THAN HE HAD
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PAINTED FOR PUBLIC CONSUMPTION PRIOR TO THE VACATION

PERIOD IN FRANCE.

2. HE SAID GISCARD HAD WANTED TO TAKE IMMEDIATE MEASURES TO STIMULATE THE FRENCH ECONOMY BUT THAT HE MET OPPOSITION FROM FINANCE MINISTER FOURCADE AND WILL HAVE TO DELAY SUCH MEASURES UNTIL THE FALL. THORN SAID THAT SCHMIDT, PRO-AMERICAN AS HE IS, IS COMING AROUND TO GISCARD'S POINT OF VIEW ON NUMEROUS ECONOMIC ISSUES INCLUDING PRIORITIES OF FIGHTING UNEMPLOYMENT VERSUS INFLATION. CURRENT PROJECTIONS INDICATE THAT UNEMPLOYMENT COULD REACH 1 MILLION IN FRANCE AND 1 MILLION 400 THOUSAND IN GERMANY THIS YEAR. FRANCE AND GERMANY AND OTHER EC COUNTRIES HAVE BECOME AWARE OF EUROPE'S DEPENDENCE FOR THEIR EXPORTS ON THE HEALTH OF THE AMERICAN ECONOMY AND THERE IS NOW FEAR THAT THE FORD ADMINISTRATION, PARTICULARLY SECRETARY SIMON, WILL KEEP THE BRAKES ON THE AMERICAN ECONOMY AT A TIME WHEN U.S. RECOVERY IS ESSENTIAL TO EUROPE. THE PROBLEM, THORN EXPLAINED, IS LARGELY POLITICAL. THE EUROPEAN COUNTRIES SIMPLY CANNOT TOLERATE HIGH RATES OF UNEMPLOYMENT AND IF THE PRESENT TREND CONTINUES, A CRISIS OF CONFIDENCE IN THE ENTIRE ECONOMIC SYSTEM OF THE WEST COULD SWEEP EUROPE. AS AN EXAMPLE OF DISTORTIONS ALREADY OCCURRING, THORN CITED GERMAN AND FRENCH AGREEMENTS TO CONSTRUCT STEEL MILLS IN EASTERN EUROPEAN COUNTRIES, WHICH OVER THE SHORT RUN WILL PROVIDE JOBS IN GERMANY AND FRANCE, BUT WHICH OVER THE LONG RUN WILL COMPOUND THE ECONOMIC CRISIS IN THE WEST. THORN ADDED THAT WHAT HAPPENED IN ITALY COULD HAPPEN IN GERMANY AND FRANCE AND EVEN LUXEMBOURG. HE SAID MODERATE CENTER PARTIES AND THE NON-COMMUNIST LEFT COULD REACT TO RISING UNEMPLOYMENT BY SEEKING RADICAL CHANGES IN THE RELATIVELY FREE ENTERPRISE SYSTEM THAT EXISTS IN THE WEST.

3. THORN SAID THE DEGREE OF ECONOMIC INTERDEPENDENCE THAT EXISTS TODAY BETWEEN EUROPE AND AMERICA PRESENTS BOTH AN ECONOMIC AND POLITICAL CHALLENGE. POLITICALLY, EUROPE CAN MUDDLE ALONG FOR SEVERAL MONTHS WITH RISING UNEMPLOYMENT AND ECONOMIC STAGNATION, BUT OVER THE NEXT YEAR SOME CONCRETE IMPROVEMENT MUST OCCUR. THAT IS WHY GISCARD AND SCHMIDT INDICATED THAT THE EC'S ECONOMIC

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PROBLEMS MUST BE DEALT WITH IN A LARGER CONTEXT. HE SAID THAT BOTH GERMANY AND FRANCE FAVOR A MEETING IN THE FALL AMONG THE LEADING INDUSTRIAL POWERS: I. E., FRANCE, THE UK, GERMANY, JAPAN AND THE U.S. THIS PROPOSAL HAS MET WITH OPPOSITION FROM THE SMALLER EC MEMBER STATES WHO INSIST THAT THE COMMUNITY AS A WHOLE SHOULD BE REPRESENTED AT AT SUCH A MEETING. THORN BELIEVES SOME FORMULA CAN BE WORKED OUT WHEREBY THE MAJOR EC POWERS WILL CONSULT WITH

THE SMALLER ONES PRIOR TO SUCH A MEETING WHILE ATTENDANCE AT THE MEETING ITSELF WILL BE LIMITED TO THE MAJOR POWERS. IN THORN'S VIEW IT WILL BE ESSENTIAL THAT THE MAJOR POWERS TACKLE BOTH ECONOMIC AND MONETARY PROBLEMS.

4. COMMENT: THORN WAS MORE PESSIMISTIC ABOUT THE CURRENT ECONOMIC SITUATION THAT HE HAS PREVIOUSLY BEEN IN CONVERSATION WITH ME. HE MADE IT CLEAR THAT HE BELIEVES UNEMPLOYMENT RATHER THAN INFLATION IS THE MAIN POLITICAL PROBLEM FACING EUROPE AND THAT TIME IS CRITICAL IN FINDING SOLUTIONS. HE ALSO MADE IT CLEAR THAT HE FELT A VIABLE SOLUTION FOR EUROPE COULD ONLY BE REACHED THROUGH COOPERATION WITH THE U.S. FARKAS

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